

Memorandum

To: CHAIR AND MEMBERS
Airspace Advisory Committee

Date: April 1, 2003

File No. 04-SF-101-33

Location: Dore Street west of
Bryant Street in
San Francisco

From: DEPARTMENT OF TRANSPORTATION

Subject: Approval of Lease Terms and Conditions – Jerome and Kathryn Bellach aka The 9TH Street Design Center, LP.

RECOMMENDATION:

It is requested that the Airspace Advisory Committee (AAC), recommend to the California Transportation Commission (CTC) that it approves the terms of a lease on the above referenced site to Jerome and Kathryn Bellach, personally, and as authorized agents of The 9th Street Design Center, LP. It is in the best interest of the State to lease by direct negotiations and not bid this parcel publicly to optimize lease income by leasing to adjacent owners. Due to its size, the parcel lacks potential to generate sufficient revenue an an independent commercial parking lot. Consequently, this parcel has enjoyed no bid competition over the entire public auction history of the parcel.

BACKGROUND:

The subject property is a paved parcel adjacent to Dore Street, west of Bryant Street under the SF-101 overhead structure, and totals 8,285 square feet, but due to slope irregularities and height restrictions imposed by the overhead structure, the parcel contains only 4,500 net useable square feet.

In the 1950's the State first acquired the subject parcel in order the construct the overhead SF-101 freeway. At the time the parcel was improved with a commercial building. To accommodate the new freeway, the western portion of the building was demolished. The remaining building was re-faced with several loading docks located on the new west wall with access to the loading docks provided through our ensuing airspace parcel.

In 1998 the adjoining building owner and then State tenant was "540 9th Street Associates, LLC aka FOB Trading Corporation (FOB). FOB was attempting to refinance its debt for the adjoining property and the prospective lenders would not tender new loans if FOB did not have a long term lease for the State airspace parcel to guarantee access to the building loading docks. During the same year the State was to begin a construction project on the

CHAIR AND MEMBERS

April 1, 2003

Page 2

overhead SF-101 structure to reinforce and seismically retrofit the structure bents. The project would require the temporary closure of the parcel and acquisition of additional temporary right of way to allow for construction on the structure bents. In March 1998, approval was obtained from the Airspace Advisory Committee to directly negotiate with the adjoining property owner for a long term lease. As part of the Right of Way acquisition agreement, the State memorialized this approval by agreeing that it would offer to lease the airspace parcel to FOB for a minimum term of 20 years at fair market rent.

After AAC approval was obtained the parties negotiated and agreed to terms, but the then tenant (FOB) soon encountered financial problems and attempted over the next several years to sell the adjoining property. In September 2002, FOB found a new buyer, Jerome and Kathryn Bellach. By January 2003 the sale was completed and the Bellachs now desire a long term lease based on the same terms and conditions as originally endorsed in March 1998 by the AAC. The Bellachs have financed the purchase partially through the use of an SBA loan which requires a long term lease for the State parcel to secure access to the building loading docks.

TENANT BACKGROUND:

Jerome and Kathryn Bellach are the principal owners of the Bellach's Leather Furniture business with six retail locations within the San Francisco Bay Area. The Bellachs will be opening both a traditional leather furniture retail outlet and a new concept modern furniture retail store in the adjoining building and require access to the building loading docks via the subject State airspace parcel.

PROPOSED LEASE TERMS AND CONDITIONS:

Lease Term: 20 year initial term with two 5-year options

Use: Access and Parking for adjacent commercial building

Current Appraised Fair Market Rate for this parcel: \$945/mo. (0.21/s.f./mo. X 4,500 s.f.)

Negotiated Lease Rate: \$1,265/mo. (\$0.2811/s.f./mo. x 4,500 s.f.)

Adjustments to Rent: 1. Annual CPI increases

2. Fair market reevaluations at option of Lessor every 5th year of the initial term and at the beginning of each option period.

CHAIR AND MEMBERS

April 1, 2003

Page 3

ANALYSIS:

It is in the State's best interest to lease this parcel to the proposed lessees to achieve the highest and best use and the greatest return to the State. Approval of the above negotiated lease terms and your positive recommendation to the California Transportation Commission is hereby requested.

Jim Bozionelos
Associate Right of Way Agent
District 4 Airspace Program

Enclosures

APPRAISAL SUMMARY

RW 15-2

FLA No. 04-SFX-101-33
Name: Jerome and Kathryn
Bellach

APPRAISAL SUMMARY

Parcel Description:

Location: Corner of Dore Street and Bryant Street under the SF-101 overhead structure
Area: Mixture of industrial, commercial, retail, and live-work residential uses.
Zoning: South of Market Zoning Plan—Service/Light Industrial (SLI): commercial, manufacturing, and business.

Valuation:

Highest and best use: The subject is not capable of independent development due to its shape and low overhead freeway structure. Best use is as access way and parking for adjacent commercial building.
Appraised Value: \$0.21/s.f./mo. x 4,500 s.f. = \$945.00/mo.
Date of Appraisal: January 2003

Proposal:

Use: Vehicle access to loading docks of adjacent commercial building and employee parking.
Initial Term: 20 years
Options: two 5-year options
Negotiated Rent: \$1,265.00/mo.
Rent Adjustments:
CPI: Annual adjustments
Re-evaluations: At option of Lessor every 5 years and at beginning of every option.

FLA SF-101-33



Dore Street

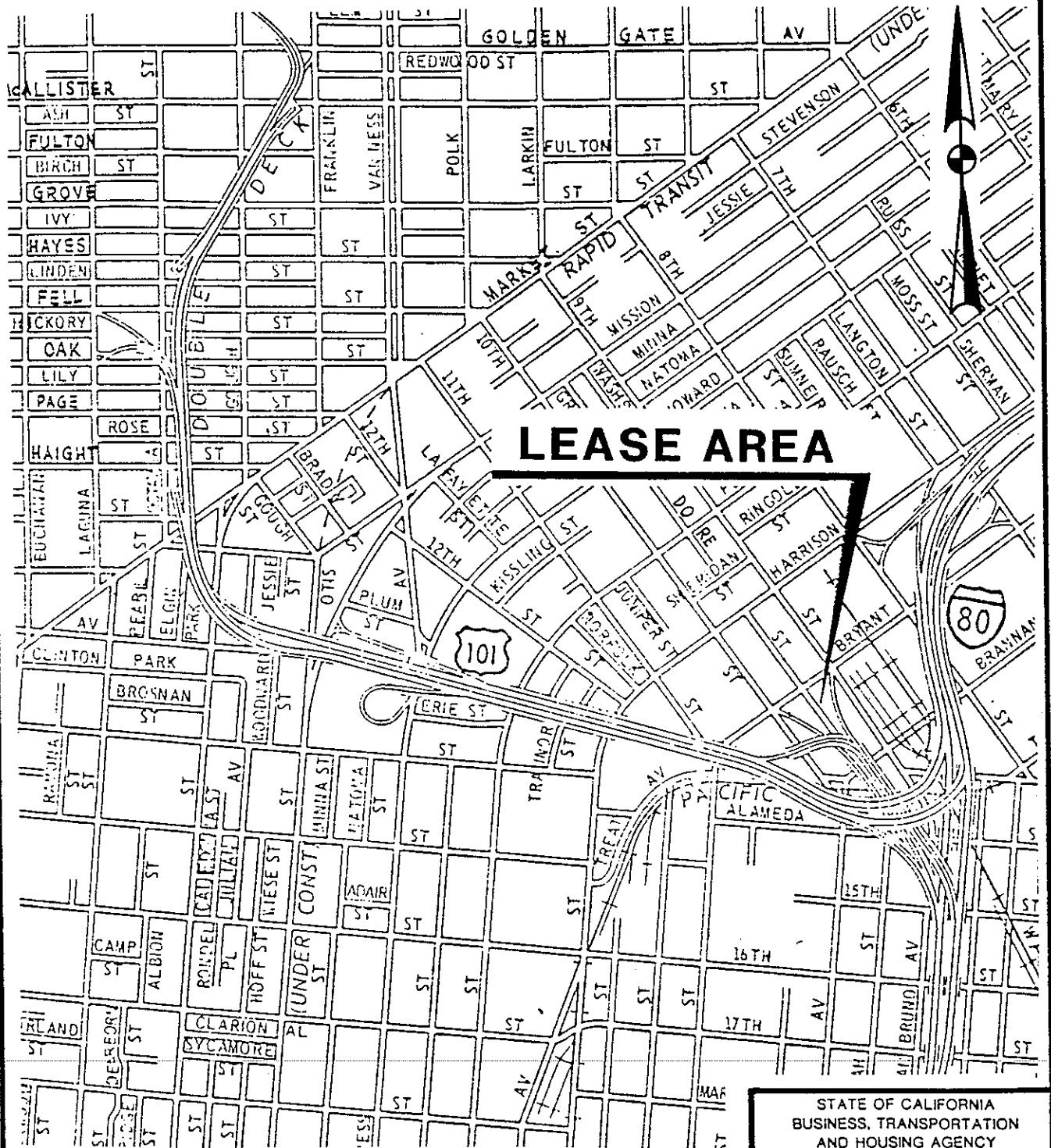
SF-101-33

D
o
r
e

S
t
r
e
e
t



CITY OF SAN FRANCISCO



LEASE AREA

NO SCALE

STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION
AND HOUSING AGENCY
DEPARTMENT OF TRANSPORTATION
DISTRICT 04

FLA

04-SF-101-33

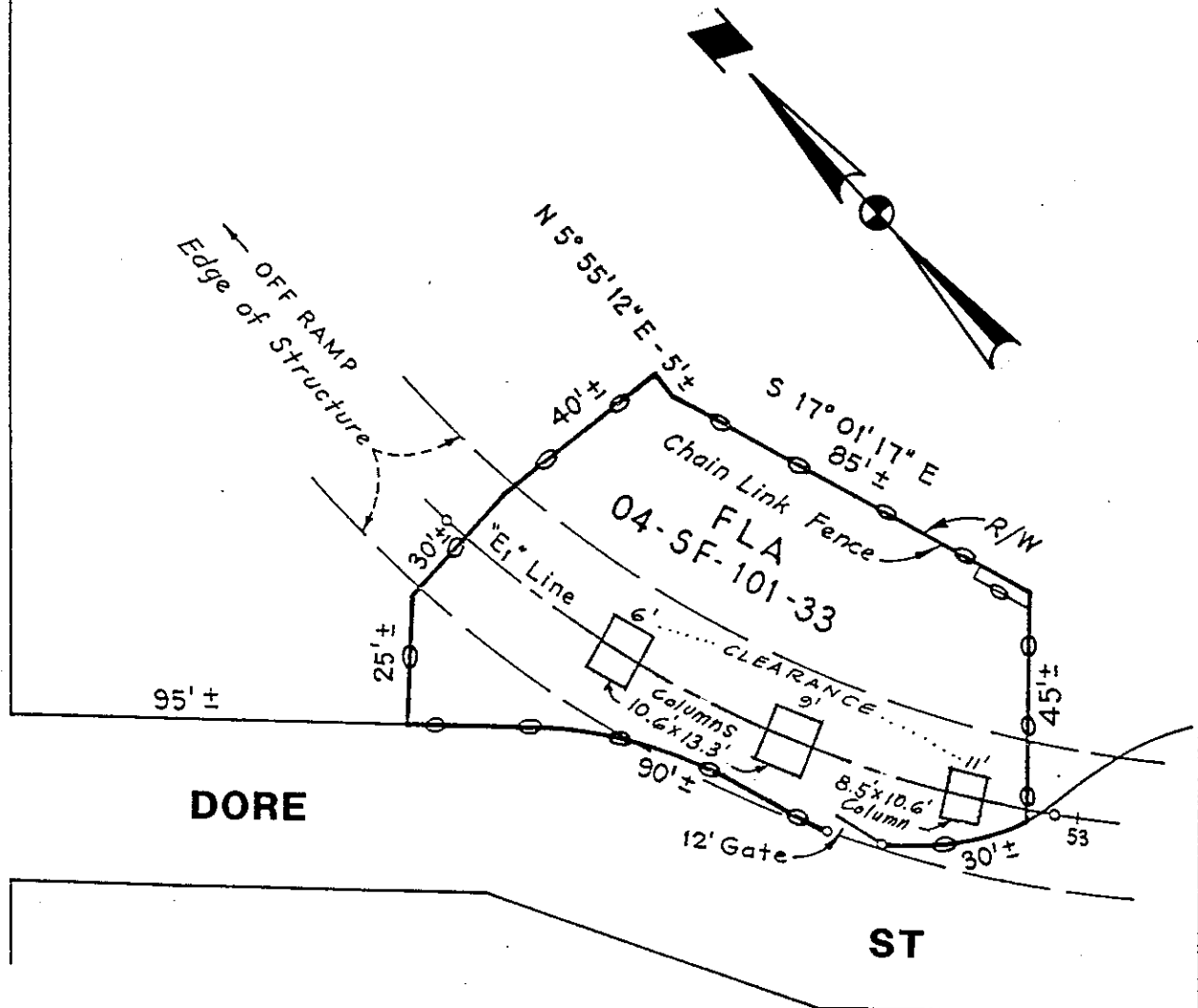
| | | | |
|----------|------|---------|----------|
| DR. BY | JN | DATE | 12-98 |
| CKD. BY | | SCALE | As Shwn. |
| CO. RTE. | P.M. | DR. NO. | |
| SF | 101 | 4.3 | 1 OF 2 |

Dimensions and clearances shown are approximate. Where greater accuracy is required an engineering field survey is suggested.

NINTH ST

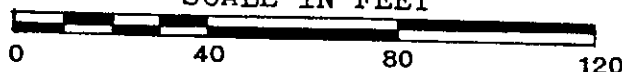
CITY OF SAN FRANCISCO

BRYANT ST



Gross Area 8,657 ± Sq. Ft.
 Area of Columns 372 ± Sq. Ft.
 Net Area 8,285 ± Sq. Ft.
 Area Under Structure ... 4,000 ± Sq. Ft.

SCALE IN FEET



STATE OF CALIFORNIA
 BUSINESS, TRANSPORTATION
 AND HOUSING AGENCY
 DEPARTMENT OF TRANSPORTATION
 DISTRICT 04

FLA
04-SF-101-33

| | | | |
|---------|------|-------|-----------|
| DR. BY | JN | DATE | 12-98 |
| CKD. BY | | SCALE | As Shown. |
| CO. | RTE. | P.M. | DR. NO. |
| SF | 101 | 4.3 | 2 OF 2 |

R-30.24